

Action Summary – 2 December 2022

Analyst Theodore R. O'Neill - Digital Healthcare company QHSLab reports small miss to our 3Q22 EPS estimates – reiterate Buy rating and \$5 PT

- USAQ reported 3Q22 revenue and an EPS loss of \$269.3K and \$0.03, respectively versus our estimate of \$450K and an EPS loss of \$0.01, respectively. There is no consensus. The \$0.02 unfavorable variance was due to lower sales and higher non-operating expenses, partially offset by lower operating expenses.
- **Revenue transition continuing.** During 2Q22, it began to enter SaaS subscription agreements to provide physicians with access to its proprietary internally-developed QHSLab platform software that provides clinical decision support and patient monitoring which facilitate the diagnosis and treatments of allergies using its AllergiEnd® Products. Subscription sales have been increasing rapidly (up >250% sequentially) and is off a small base. That being said, the uptake of Allergy Diagnostic kits and Immunotherapy Treatments have had a slower uptake than we had forecast.
- **Adjustment to estimates.** Due to this transition, we are lowering our 2022 revenue forecast to \$1.3mn from \$1.7mn and EPS goes to a loss of \$0.12 from a loss of \$0.08. For 2023, our revenue estimate is unchanged, but we increase interest costs and EPS moves to a loss of \$0.04 from a loss of \$0.01.
- **Attractive valuation. Trading at an EV/Sales of 0.91, the shares appear to us inexpensive on an absolute and relative basis.** Reiterating Buy rating and \$5 PT

12/1 Closing price: \$0.15	Market cap: \$1.4 million	2023 P/E: NMF	EV/2023 Sales: 0.91
Shares outstanding: 9.3 million	Insider ownership: 50%	Avg. trading volume: 1,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in thousands)

Period	EPS	Revenue	Op Margin
1Q21A	\$(0.01)	\$304	NMF
2Q21A	\$(0.02)	\$456	NMF
3Q21A	\$(0.03)	\$324	NMF
4Q21A	<u>\$(0.03)</u>	<u>\$330</u>	<u>NMF</u>
FY20A	<u>\$(0.10)</u>	<u>\$1,414</u>	<u>NMF</u>
1Q22A	\$(0.02)	\$355	(12%)
2Q22A	\$(0.03)	\$351	(38%)
3Q22A	\$(0.03)	\$269	(69%)
4Q22E	<u>\$(0.03)</u>	<u>\$300</u>	<u>(55%)</u>
FY22E	<u>\$(0.12)</u>	<u>\$1,275</u>	<u>(41%)</u>
1Q23E	\$(0.02)	\$550	(9%)
2Q23E	\$(0.01)	\$650	(3%)
3Q23E	\$(0.01)	\$800	2%
4Q23E	<u>\$(0.00)</u>	<u>\$1,000</u>	<u>8%</u>
FY23E	<u>\$(0.04)</u>	<u>\$3,000</u>	<u>1%</u>

Note: Numbers may not add due to rounding. See our full model at the back of this report.

Cash balance (in thousands)

• 2021A	• \$287
• 2022E	• \$26
• 2023E	• \$935

Debt (in thousands)

• 2021A	• \$503
• 2022E	• \$210
• 2023E	• \$900

Adj. EBITDA (in thousands)

• 2021A	• (\$736)
• 2022E	• (\$1,012)
• 2023E	• (\$336)

Risks/Valuation

- Risks include: Highly competitive business; lack of earnings; changes in customer demand
- Our \$5 target is derived using a discounted future earnings model

Company description: QHSLab is a medical device company providing digital healthcare solutions and point-of-care-diagnostic tests to primary care physicians. Digital healthcare allows doctors to assess patients' responses quickly and effectively using advanced artificial intelligence algorithms. It also markets and sells point-of-care, rapid-response diagnostic tests used in the primary care practice. QHSLab, Inc.'s products and services are designed to help physicians improve patient monitoring and medical care while also improving the revenues of their practice.

Figure 1 – QHSLab, Inc. – One-year Trading snapshot



Source: FactSet

Valuation Methodology

We believe USAQ is undervalued, and we support that belief with two valuation techniques, both of which generate approximately a value significantly greater than where the shares trade today. For the purposes of determining our price target, we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$5.00 is based on a discounted future earnings model (Figure 2). For the purposes of deriving an earnings-based price target, we assume the company incurs losses until 4Q23 and we take, what we think is a very conservative approach to earnings growth. The model sums up all earnings per share, discounted at 12% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$5.20 which we round down to \$5.00.

Figure 2 – QHSLab, Inc. – Implied Price Target Calculation

Disc. Future Earnings		\$5.20
Year	EPS	Discounted EPS
2023	(\$0.04)	(\$0.04)
2024	\$0.05	\$0.04
2025	\$0.20	\$0.16
2026	\$0.30	\$0.21
2027	\$0.38	\$0.24
2028	\$0.45	\$0.26
2029	\$0.55	\$0.28
2030	\$0.65	\$0.29
2031	\$0.72	\$0.29
2032	\$0.79	\$0.28
Terminal Value:		\$3.18

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

As we show in Figure 5, USAQ shares sell at a significant discount to average peer sales multiples. The average market cap/sales multiple looking into next year is above 2.4x. Based on our estimates for 2023, and using the average sales multiple, if USAQ reaches \$3MM of revenue, it would have a market cap of ~\$7.11mn or ~\$0.76 per share (see Figure 3).

Figure 3 – QHSLab, Inc. – Summary Discount to Peers

	Implied Share Price Calculation
Average Peers 2023 Sales Multiple	2.37
Our 2023 Revenue Estimate	\$3MM
Implied Market Cap	\$7.11mn
Estimated Share Count	9.3MM
Implied Share Price	\$0.76

Source: Litchfield Hills Research LLC and FactSet

Quarterly Results

USAQ reported 3Q22 revenue and an EPS loss of \$269.3K and \$0.03, respectively versus our estimate of \$450K and an EPS loss of \$0.01, respectively. There is no consensus. The \$0.02 unfavorable variance was due to lower sales and higher non-operating expenses, partially offset by lower operating expenses.

Figure 4 –QHSLab Inc. – Quarterly Variance Analysis (\$000)

	2022	2022	Better/(worse) than forecast
	Q3E	Q3A	
Income Statement			
Total Revenue	\$450.0	\$269.3	(\$180.7)
Total cost of revenue	234.0	143.7	90.3
Total Gross Profit	216.0	125.6	(90.4)
Operating expenses:			
G&A	125.0	108.0	17.0
R&D	75.0	48.4	26.6
Marketing	120.0	154.6	(34.6)
Total Expenses	320.0	311.0	9.0
Earnings (loss) from Operations	(104.0)	(185.4)	(81.4)
Total other income/(expense)	(6.0)	(124.7)	(118.7)
Earnings before taxes	(110.0)	(310.1)	(200.1)
Tax expense/(benefit)	0.0	0.0	0.0
Net income	(\$110.0)	(\$310.1)	(\$200.1)
EPS	(\$0.01)	(\$0.03)	(\$0.02)
EPS Excluding other income/expense	(\$0.01)	(\$0.02)	(\$0.01)
Diluted common shares	8,800	9,086	

Source: Company filings and Litchfield Hills Research LLC

Guidance and Financial Forecasts

The company provides no guidance. Our financial forecast makes many assumptions in order to determine a valuation. We have tried to be as conservative as possible, but the nature of this particular business is that it can get very profitable very quickly. If the products are accepted and priced as the company hopes, we believe our model may turn out to be conservative in terms of earnings growth.

Figure 5 – QHSLab, Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2023 Consensus Multiples	
					Market Cap / Sales	EV /Sales
NVS-US	Novartis AG (Adr)	\$89.56	211,043	200,914	4.20	4.06
4543-JP	Terumo Corporation	\$28.97	22,006	22,057	3.61	3.63
RHC-AU	Ramsay Health Care Ltd	\$44.07	10,087	17,784	1.02	1.77
508869-IN	Apollo Hospitals Enterprise Limited (IN Listing)	\$58.12	8,357	8,722	3.51	
ATR-US	Aptargroup	\$106.14	6,929	8,190	2.09	2.48
AEVS-CH	AEVIS Victoria SA	\$18.74	1,584	2,572		
IRBT-US	Irobot Corp	\$52.09	1,425	1,460	1.21	1.24
WELL-CA	WELL Health Technologies Corp.	\$2.23	505	798	1.08	1.64
GDRX-US	GoodRx Holdings, Inc.	\$4.36	360	1,770	2.62	2.69
ROSE-CH	Zur Rose Group AG	\$24.90	336	628	0.20	0.34
VICO-SE	Vicore Pharma Holding AB	\$2.23	160	145	NMF	NMF
PAVM-US	PAVmed Inc (US Listing)	\$0.70	66	67	7.89	7.83
CFX-GB	Colefax Group	\$7.80	56	72	0.51	0.65
DOC-CA	CloudMD Software & Services, Inc. (XCLOSE Security)	\$0.14	39	45	0.46	0.49
ACHV-US	Achieve Life Sciences Inc	\$2.80	27	25		
	AVERAGE				<u>2.37</u>	<u>2.44</u>
USAQ-US	QHSLab Inc	\$0.15	1	3	0.45	0.91
	USAQ-US Discount to peers				-81%	-63%

Source: Litchfield Hills Research LLC and FactSet

Figure 6 – QHSLab, Inc. – Income Statement (\$000)

December ending year	2019 Year	2020A Year	2021A Year	2022E				2022E Year	2023E				2023E Year
				Q1A	Q2A	Q3A	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$0	\$125	\$1,414	\$355	\$351	\$269	\$300	\$1,275	\$550	\$650	\$800	\$1,000	\$3,000
Cost of Goods	0	74	744	167	181	144	156	647	286	338	416	520	1,560
Gross Profit	0	50	671	189	170	126	144	629	264	312	384	480	1,440
G&A	54	132	454	90	124	108	110	432	115	125	140	150	530
R&D	100	98	91	29	59	48	50	186	50	50	50	50	200
Sales & Marketing	0	95	592	113	120	155	150	538	150	155	175	200	680
Total Operating Expenses	154	325	1,137	232	302	311	310	1,155	315	330	365	400	1,410
Operating Income	(154)	(275)	(466)	(43)	(132)	(185)	(166)	(527)	(51)	(18)	19	80	30
Operating income %	NMF	NMF	-33%	-12%	-38%	-69%	-55%	-41%	-9%	-3%	2%	8%	1%
Total Other Items	(12)	(52)	(304)	(147)	(147)	(125)	(100)	(519)	(100)	(100)	(100)	(100)	(400)
Pre-Tax Income	(167)	(327)	(770)	(190)	(279)	(310)	(266)	(1,046)	(151)	(118)	(81)	(20)	(370)
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (loss)	(\$167)	(\$327)	(\$770)	(\$190)	(\$279)	(\$310)	(\$266)	(\$1,046)	(\$151)	(\$118)	(\$81)	(\$20)	(\$370)
EPS, as reported	(\$0.03)	(\$0.05)	(\$0.10)	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.12)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.04)
Diluted Shares Outstanding	5,411	6,200	7,861	8,780	8,798	9,086	9,100	8,941	9,100	9,100	9,100	9,200	9,125

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – QHSLab, Inc. – Balance Sheet (\$'000)

December ending year	FY2023E	FY2022E	FY2021A	FY2020A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$935.0	\$25.6	\$286.9	\$94.3
Accounts receivable	120.0	60.0	70.5	60.5
Inventories	100.0	50.0	65.7	99.7
Other assets	40.0	30.0	22.7	11.6
Total Current Assets	1,195.0	165.6	445.8	266.2
Net PP&E	186.0	186.0	186.3	0.0
Other non-current assets	1,400.0	1,500.0	1,576.4	0.0
Total Assets	\$2,816.0	\$1,886.6	\$2,208.5	\$297.9
Current Liabilities				
Accounts payable	200.0	150.0	20.4	159.6
Advances or notes payable	1,000.0	1,400.0	796.0	55.0
Other current liabilities	40.0	90.0	58.6	0.0
Total current liabilities	1,240.0	1,640.0	875.0	214.6
Accrued interest expense	10.0	0.0	6.5	115.6
Convertible note and loans	900.0	210.0	503.0	576.0
Total Liabilities	2,150.0	1,850.0	1,384.4	906.2
Stockholders' Equity				
Preferred stock	0.1	0.4	0.4	0.1
Common stock	0.6	0.9	0.9	0.7
Additional paid-in-capital	4,600.0	3,600.0	3,348.7	1,139.6
Retained earnings	(3,934.7)	(3,564.7)	(2,518.9)	(1,748.7)
Cum. trans. adj. and treasury stock	0.0	0.0	(7.0)	0.0
Total stockholders' equity	666.0	36.6	824.1	(608.3)
Total Liabilities and equity	\$2,816.0	\$1,886.6	\$2,208.5	\$297.9

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – QHSLab, Inc. – Cash Flow (\$000)

	2023E	2022E	2021A	2020A
Net Income	(\$370.00)	(\$1,045.80)	(\$770.18)	(\$327.39)
Accounts receivable	(60.00)	10.47	(9.95)	(57.77)
Inventories	(50.00)	15.74	33.96	(99.70)
Other assets	(10.00)	(7.29)	(11.12)	(11.60)
PP&E	0.00	0.27	(186.27)	0.00
Intangibles net of depr.	100.00	76.44	(1,576.44)	0.00
Long term assets	0.00	(35.00)	31.70	(31.70)
Accounts payable	50.00	129.63	(139.25)	138.68
Advances or notes payable	(400.00)	604.03	740.97	55.00
Accrued interest expense	0.00	0.00	0.00	0.00
Other current liabilities	(50.00)	31.39	58.62	0.00
Accrued interest expense	10.00	(6.52)	(109.05)	22.07
Convertible note and loans	690.00	(292.96)	(73.05)	234.32
Preferred stock	(0.26)	0.00	0.26	0.00
Common stock	(0.33)	0.06	0.22	0.08
Additional paid-in-capital	1,000.00	251.32	2,209.05	148.77
Accumulated other comp. loss	0.00	6.97	(6.97)	0.00
Other				
Total Cash Flow	\$909.40	(\$261.25)	\$192.52	\$70.75

Source: Company reports and Litchfield Hills Research LLC

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